

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00  
EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00  
LAB-04 SIL-01 OMB-01 EA-10 NEA-11 ICA-11 OPIC-03  
AGRE-00 SS-15 FTC-01 JUSE-00 OES-07 CEQ-01 DOE-15  
SOE-02 L-03 DODE-00 PM-05 MCE-00 ACDA-12 /164 W  
-----089470 231652Z /72

P R 231520Z MAY 78  
FM AMEMBASSY OSLO  
TO SECSTATE WASHDC PRIORITY 5857  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY PARIS  
AMEMBASSY STOCKHOLM  
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 2 OSLO 2506

BRUSSELS FOR USEC

PARIS FOR USOECD

GENEVA FOR MTN DELEGATION

E.O. 11652: N/A  
TAGS: EIND, ECON, MASS, NO  
SUBJECT: NORWAY BUYS VOLVO SHARE

1. THE NORWEGIAN GOVERNMENT ANNOUNCED MAY 22 THAT IT HAS SIGNED  
AN AGREEMENT WITH VOLVO A/S OF SWEDEN TRANSFORMING VOLVO INTO  
A NEW JOINT COMPANY, VOLVO (SWEDEN/NORWAY) A/S TO BE OWNED  
ON A 60/40 BASIS BY NEW HOLDING COMPANIES TO BE ORGANIZED IN  
SWEDEN AND NORWAY. VOLVO IN SWEDEN GETS ITS 60 PERCENT OF THE  
NEW COMPANY BY TRANSFERRING TO THE NEW CONCERN ALL ITS PRESENT  
ASSETS AND LIABILITIES, INCLUDING ALL SUBSIDIARIES AND STOCK  
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IN OTHER COMPANIES EXCEPT VOLVO PETROLEUM AND VOLVO FLYGMOTOR  
A/S. NORWAY'S 40 PERCENT IS TO COST NKR 877.5 MILLION (\$161  
MILLION IN SHARE CAPITAL RAISED IN NORWAY PLUS QUOTE AN OPPOR-  
TUNITY TO COMPETE IN THE FOURTH ROUND OF OFFSHORE LICENSING NOW  
UNDERWAY. UNQUOTE THE GON WILL GUARANTEE RAISING THE NOR-  
WEGIAN CAPITAL.

2. AS REPORTED IN OSLO, THE MAIN PROVISIONS OF THE AGREEMENT ARE:

-- TAXATION OF THE JOINT COMPANY THROUGH THE TWO NATIONAL HOLDING;  
--SWEDISH VOLVO TO HAVE SIX AND NORWEGIAN VOLVO FOUR MEMBERS ON THE NEW BOARD OF DIRECTORS; THREE MEMBERS TO BE ELECTED BY THE COMPANY'S EMPLOYEES (TWO FROM SWEDEN; ONE FROM NORWAY);  
-- VOLVO'S PRESENT MANAGING DIRECTOR, PER GYLLENHAMER, TO CONTINUE AS MANAGING DIRECTOR OF THE NEW COMPANY BUT IT WILL BE A QUOTE BINDING

OBJECTIVE UNQUOTE THAT VOLVO LEADERSHIP AND ADMINISTRATION WILL BE REVISED TO REFLECT A SWEDISH/NORWEGIAN COLORING;  
-- WITH INCREASED CAPITALIZATION, THE BUILD-UP OF VOLVO ACTIVITY IN NORWAY IS TO COME IN PART FROM NEW DEVELOPMENT, NEW PRODUCTION AND NEW PROGRAMS;  
-- IN VIEW OF THE COSTS OF ESTABLISHING VOLVO IN NORWAY, THE GON WILL FOREGO FOR FIVE YEARS DIVIDENDS ON INTEREST ON CAPITAL MADE AVAILABLE BY THE STATE;  
--THE PRESENT AGREEMENT IS TO BE FORMALIZED BY OCTOBER 15, 1978 BY VOLVO'S PRESENT BOARD AND THE NORWEGIAN PARLIAMENT.

3. IT IS UNDERSTOOD THAT A PRECONDITION OF THE AGREEMENT IS AN AWARD TO VOLVO PETROLEUM OF AT LEAST ONE BLOCK OF THE SEVEN BLOCKS TO BE AWARDED THIS SUMMER UNDER THE FOURTH NORWEGIAN NORTH SEA OIL LICENSING ROUND. WE UNDERSTAND THAT RIGHTS WHICH VOLVO PETROLEUM WINS UNDER THE FOURTH LIMITED OFFICIAL USE

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ROUND CAN BE TRANSFERRED ONLY WITH THE CONSENT OF THE GON, BUT THAT VOLVO PETROLEUM CAN COUNT ON THAT CONSENT FOR QUOTE TRANSFER TO OTHER LEGITIMATE SWEDISH INTERESTED PARTIES. UNQUOTE

4. COMMENT: THE GON IS HAILING THIS DEAL AS A MAJOR ACHIEVEMENT OF ITS INDUSTRIAL PROGRAM: OIL IS BEING TRANSFORMED INTO JOBS RATHER THAN MERELY MAINTAINING CONSUMPTION. THE NEW COMPANY IS TO INVEST BETWEEN 500 AND 700 MILLION KRONER (\$91 - 128 MILLION) IN NORWAY OVER THE NEXT FIVE YEARS (THE VOLVO PENTA MARINE ENGINE SUBSIDIARY IS TO BE MOVED TO NORWAY AS THE MAIN COMPONENT OF THIS PROGRAM) AND THIS RESULT IN 3,000 - 5,000 NEW JOBS ACCORDING TO THE GON. AS WE HAVE BEEN REPORTING (OSLO 0553 AND PREVIOUS), WE EXPECT EMPLOYMENT MAINTAINING SUBSIDIES, PARTICULARLY IN SHIPBUILDING, TO BEGIN TO BE CUT BACK TO ENCOURAGE OVERDUE RESTRUCTURING IN INDUSTRY NOW THAT THE OVERALL (RATHER STRICT) WAGE SETTLEMENT FOR 1978-79 IS VIRTUALLY CONCLUDED. THE PROSPECT OF THESE NEW JOBS WILL SUBSTANTIALLY STRENGTHEN THE GON'S HAND IN ITS DEALINGS WITH LABOR AND ITS OWN LEFT WING AS UNEMPLOYMENT BEGINS TO CREEP UP IN THE MONTHS AHEAD (WHICH IT MUST DO IF QUOTE WAGE DRIFT UNQUOTE

IS NOT TO NEGATE THE GON'S BELT TIGHTENING EFFORTS).

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EB-08 FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00  
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5. PERHAPS EQUALLY IMPORTANT TO THE GON IS THE EXAMPLE  
SET BY THE VOLVO DEAL FOR THE INTERNATIONAL OIL COMPANIES  
INTERESTED IN THE FOURTH AND SUBSEQUENT LICENSING ROUNDS  
IN THE NORWEGIAN NORTH SEA. THE GON HAS SAID THAT AWARDS  
WILL BE MADE TO COMPANIES WHICH, IN ADDITION TO REQUISITE  
FINANCIAL AND TECHNICAL QUALIFICATIONS, ARE ABLE AND WILLING  
TO BRING WITH THEM BENEFITS FOR THE NORWEGIAN ECONOMY IN  
THE FORM OF NEW INDUSTRY (JOBS) OR NEW TECHNOLOGY. THIS IS  
AN EXAMPLE ON A GRAND SCALE TO WHICH THE GON CAN POINT.

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6. SWEDEN IS REGARDED HERE WITH A MIXTURE OF ENVY AND PRIDE. THE IDEA OF NORWEGIAN PARTNERSHIP WITH SWEDEN STIMULATES A GENERALLY WARM RESPONSE AS IT IS SEEN AS PUTTING NORWAY ON A PAR WITH A SOPHISTICATED ELDER BROTHER. NORWAY FOR SOME YEARS, MAINLY IN NORDIC COUNCIL CONTEXT, HAS TALKED ABOUT COOPERATION WITH SWEDEN IN OIL AND INDUSTRY BUT WITH NOTHING UNTIL NOW TO SHOW FOR IT. WITH THE VOLVO DEAL, A FRAMEWORK EXISTS FOR SERIES OF POSSIBLE NEXT STEPS IN INDUSTRIAL COOPERATION AND IN SUPPLY OF OIL AND REFINING PRODUCTS TO SWEDEN. THE NORDIC BANK COULD CONCEIVABLY BEGIN TO PLAY A MORE ACTIVE ROLE NOW, AS WELL.

7. OTHER THAN THE EQUITY INTEREST IN THE NORTH SEA LOST BY US COMPANIES TO VOLVO PETROLEUM (IF ANY), WE DO NOT SEE MUCH EITHER PRO OR CON OF DIRECT INTEREST TO THE US. IT IS TRUE THAT US AND OTHER SUPPLIER OF CERTAIN RESTRICTED CATEGORIES OF MILITARY EQUIPMENT TO NORWAY MAY FIND ORDERS GOING TO VOLVO THAT HERETOFORE DID NOT. AT THE SAME TIME, THERE WILL BE NEW OPPORTUNITIES FOR US SUPPLIERS AS NORWEGIAN INTERESTS GEAR UP TO BUILD FOR VOLVO AND AS PROMISED NEW INVESTMENT TAKES PLACE (WE WILL REPORT TRADE OPPORTUNITIES AS THEY ARE IDENTIFIED) THERE SHOULD ALSO BE NEW OPPORTUNITIES FOR FINANCING. LERNER

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## Message Attributes

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**Concepts:** PROCUREMENT, AUTOMOTIVE INDUSTRY, JOINT VENTURES  
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